

Message Text

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TAGS: OREP (WITNESSE)
SUBJ: STATEMENT BEFORE JOINT ECONOMIC COMMITTEE

REF: STATE 000071

1. AMCHAM MEXICO PRESIDENT AL R. WICHTRICH HAS BEEN REQUESTED TO TESTIFY BEFORE JOINT ECONOMIC COMMITTEE ON JANUARY 17 AND TO HAVE TEXT OF HIS FULL STATEMENT TO COMMITTEE STAFF THREE DAYS EARLY. TO ACCOMPLISH THIS, AMCHAM REQUESTED THAT EMBASSY AND DEPARTMENT RELAY TEXT TO COMMITTEE STAFF. TEXT FOLLOWS.
QUOTE

FULL STATEMENT BY AL R. WICHTRICH
BEFORE THE JOINT ECONOMIC COMMITTEE

MY NAME IS AL R. WICHTRICH, AND I AM PRESIDENT OF THE AMERICAN CHAMBER OF COMMERCE OF MEXICO. FOUNDED IN 1917, "AMCHAM MEXICO" IS A VOLUNTARY, AUTONOMOUS, NON-PROFIT ASSOCIATION WITH APPROXIMATELY 2200 CORPORATE MEMBERS. IN THAT MEMBERSHIP IS REPRESENTED THE MAJOR PART OF U. S. DIRECT PRIVATE INVESTMENT IN MEXICO.

AS I UNDERSTAND THE AREA OF INTEREST OF THIS COMMITTEE, IT INVOLVES ESSENTIALLY AN ASSESSMENT OF THE CURRENT POLITICAL, SOCIAL AND ECONOMIC SITUATION IN MEXICO AND THE PROSPECTS FOR THE FUTURE UNDER THE NEW ADMINISTRATION OF PRESIDENT JOSE LOPEZ PORTILLO.

I AM SURE ALL OF YOU ARE SUFFICIENTLY FAMILIAR WITH MEXICO'S HISTORY TO PERMIT ME TO LIMIT MYSELF TO A BRIEF REVIEW. MEXICO'S
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SOCIAL, ECONOMIC AND CULTURAL ROOTS ARE AS COMPLEX AS THEY ARE DIVERSE. DURING THE COLONIAL PERIOD, MEXICO'S INDIGENOUS POPULATION CAME UNDER THE UNIFYING RULE OF THE SPANISH CROWN. WHEN THE SPANISH WERE OVER THROWN, MEXICO WENT THROUGH A SUCCESSION OF VIOLENT CIVIL WARS. IN ONE OF THESE, THE POLITICAL AND ECONOMIC POWER OF THE CHURCH WAS BROKEN. IN THE MOST RECENT (1910-1920), REFORMS WERE INITIATED THAT HAVE GUIDED THE NATION'S

SUBSEQUENT ECONOMIC AND SOCIAL PROGRESS.

THE "MODERN ERA" FOR MEXICO DATES FROM THE EARLY 1930'S AND IS CHARACTERIZED BY SWIFT AND CONSTANT ECONOMIC DEVELOPMENT, IN WHICH THE STATE HAS PLAYED AN INCREASINGLY DOMINANT ROLE. PRESIDENT LAZARO CARDENAS NATIONALIZED MOST OF THE RAILROADS IN 1937, AND A YEAR LATER HE WON A SIGNIFICANT VICTORY OVER THE OIL COMPANIES, MOST OF WHOSE INTERESTS WERE NATIONALIZED.

FOLLOWING WORLD WAR II, MEXICO ACCELERATED INDUSTRIAL DEVELOPMENT BY PROVIDING PROTECTION AND INCENTIVES TO MANUFACTURERS OF PRODUCTS THAT FORMERLY HAD TO BE IMPORTED. ONE BY ONE, FOREIGN INTERESTS STILL IN CONTROL OF KEY ECONOMIC ACTIVITIES WERE INDUCED TO SELL OUT TO THE MEXICAN GOVERNMENT OR TO MEXICAN INVESTORS (NOTABLE EXAMPLES ARE THE ELECTRIC POWER INDUSTRY). AS A RESULT, THE MEXICAN GOVERNMENT TODAY CONTROLS APPROXIMATELY 50 PERCENT OF THE NATION'S PRODUCTIVE APPARATUS, EITHER AS AN OUTRIGHT OWNER OR AS A MAJORITY OR MINORITY STOCKHOLDER. THE AREAS INCLUDE FERTILIZERS, PETROLEUM, HOTELS, TOURIST RESORTS, NEWS-PAPERS, AUTOMOBILE PLANTS, FREIGHT CAR MANUFACTURERS, SULPHUR, TEXTILE MILLS, STEEL MILLS, AND AIRLINES, TO MENTION JUST A FEW. THE SHARE OF THE FEDERAL PUBLIC SECTOR IN THE GROSS DOMESTIC PRODUCT ROSE FROM 18 PERCENT IN 1970 TO 26 PERCENT IN 1975.

THE RATIONALE BEHIND THIS CENTRALLY MANGED ECONOMY CAN BE FOUND IN WHAT THE MEXICANS REFER TO AS THE "ONGOING REVOLUTION", WHICH IS THE INSPIRATION FOR THE NATIONAL DRIVE FOR SELF-DETERMINATION. THIS IN TURN IS A PRODUCT OF A LONG AND OFTEN HUMILIATING HISTORY OF FOREIGN CONTROL AND INFLUENCE, IN WHICH MEXICANS NOT ONLY LOST A MAJOR PART OF THEIR TERRITORY BUT HAVE SEEN FOREIGN CULTURAL PATTERNS DISPLACE OR DISTORT THEIR RICH INDIGENOUS AND COLONIAL HERITAGE. FORMER PRESIDENT LUIS ECHEVERRIA PROBABLY BEST UNCLASSIFIED

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EXPRESSED THIS ASSERTION OF INDIVIDUALITY WHEN HE SAID: "IT IS DIFFICULT TO DEVELOP OUR OWN HUMAN AND NATURAL RESOURCES, THROUGH OUR OWN EFFORT, EMPLOYING OUR OWN IMAGINATION. BUT THIS IS THE ONLY ROAD OPEN TO A NATION JEALOUS OF ITS INDEPENDENCE".
POLITICAL AND ECONOMIC SITUATION

A NEW ADMINISTRATION, ELECTED FOR A PERIOD OF SIX YEAR, TOOK OFFICE ON DECEMBER FIRST OF 1976. BEFORE ATTEMPTING TO EVALUATE THE SIGNIFICANCE OF THE PRESIDENTIAL SUCCESSION IN MEXICO, IT SHOULD BE UNDERSTOOD THAT MEXICO HAS BEEN GOVERNED BY A SINGLE PARTY FOR THE PAST FOUR DECADES. THIS HAS MEANT AN EXCEPTIONAL DEGREE OF CONTINUITY IN THE PURSUIT OF LONG-RANGE GOALS.

EACH SUCCEEDING SEXENIUM, OF COURSE, BEARS THE INDELIBLE STAMP OF THE PERSONALITY OF THE PRESIDENT. DURING THE PREVIOUS ADMINISTRATION, STRONG EMPHASIS WAS PLACED ON REFORM IN THE AREA OF DOMESTIC SOCIAL AND ECONOMIC POLICY AS WELL AS IN FOREIGN POLICY. MEXICO UNDER PRESIDENT ECHEVERRIA TOOK A NEW APPROACH TO FOREIGN INVESTMENT. IT BECAME STRONGLY ALIGNED WITH THE THIRD WORLD IN THE ECONOMIC AS WELL AS THE POLITICAL SENSE. IT INTENSIFIED SOCIAL PROGRAMS TO BENEFIT THE POOR. IT GAVE NEW

IMPETUS TO MEXICO'S DESIRE FOR POLITICAL, ECONOMIC AND CULTURAL INDEPENDENCE.

DURING THE FINAL MONTHS OF THE ECHEVERRIA ADMINISTRATION, IT BECAME INCREASINGLY APPARENT THAT THE PROCESS OF SOCIAL AND ECONOMIC REFORM WAS CREATING FINANCIAL PROBLEMS AS WELL AS SOCIAL TENSIONS. THESE COULD BE PERCEIVED IN VARIOUS SYMPTOMS, INCLUDING DEEPENING HOSTILITY BETWEEN THE PUBLIC AND PRIVATE SECTORS, IMPATIENCE OF THE LOW-INCOME MAJORITY AS THEIR BENEFITS RAPIDLY ERODED UNDER THE IMPACT OF INFLATION, AS WELL AS DISILLUSIONMENT OF MEXICO'S DISPROPORTIONATE AGRARIAN POPULATION AS PROMISES OF LAND DISTRIBUTION BORE LITTLE RELATIONSHIP TO THE AMOUNT OF DISPOSABLE ACREAGE.

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THE GAP BETWEEN EXPECTATIONS AND REALITY WIDENED. DISCONTENT-
MENT TOUCHED OFF LEGITIMATE AS WELL AS ARTIFICIALLY INSTIGATED
MOVEMENTS OF PROTEST AND CONFRONTATION -- THE MOST NOTABLE IN
RECENT MONTHS BEING THE LAND INVASIONS IN NORTHERN MEXICO. ON
NUMEROUS OCCASION, MEXICAN BUSINESSMEN EXPRESSED SERIOUS MIS-
GIVINGS NOT ONLY ABOUT GOVERNMENT ENCROACHMENT INTO AREAS TRADI-
TIONALLY REGARDED AS BELONGING TO THE PRIVATE SECTOR, BUT ABOUT
THE GROWING TAX BURDEN IMPOSED TO SUPPORT SOCIAL PROGRAMS.

THE ECONOMIC MALAISE THAT HAD BEEN GLOSSED OVER FOR SO MANY
MONTHS SURFACED ON SEPTEMBER FIRST OF LAST YEAR WHEN, IN SPITE
OF NUMEROUS OFFICIAL REASSURANCE TO THE CONTRARY, THE PESO WAS
DEVALUED AFTER 22 YEARS OF MONETARY STABILITY. ALTHOUGH THE DANGER
SIGNALS HAD BEEN NOTED BY PERCEPTIVE OBSERVERS FOR MANY
MONTHS BEFORE, THE DEVALUATION SURPRISED AND SHOCKED MOST OF
THE POPULATION, INCLUDING NORMALLY PRUDENT BUSINESSMEN WHO WERE
CAUGHT WITH DOLLAR OBLIGATIONS THAT IMPERILED THE VERY SURVIVAL
OF THEIR ENTERPRISES. LABOR UNIONS DEMANDED AND RECEIVED WAGE
INCREASES, ADDING AN EVEN GREATER BURDEN TO ALREADY AFFLICTED
BUSINESS ENTERPRISES. PRICES WENT UP IN PROPORTION TO --
AND SOMETIMES OUT OF PROPORTION TO -- THE DEVALUATION - INCREASED
COSTS. THE UNEMPLOYMENT RATE, LONG ONE OF THE NATIONS'S MOST

CRITICAL PROBLEMS, WENT UP AS BELEAGUERED COMPANIES BEGAN TO TRIM PERSONNEL TO REDUCE OPERATING EXPENSES.

THE CAUSES OF THE DEVALUATION WERE MULTIPLE. THEY INCLUDE AN INFLATION RATE WELL ABOVE THAT OF MEXICO'S PRINCIPAL TRADING PARTNERS, A BURDEN OF FOREIGN INDEBTEDNESS ESTIMATED AT SOME 20 BILLION DOLLARS, DETERIORATION OF MEXICO'S EXPORT COMPETITIVENESS, A DISAPPOINTING PERFORMANCE OF THE NORMALLY PRODUCTIVE TOURIST

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INDUSTRY, WAGE INCREASES UNRELATED TO INCREASES IN PRODUCTIVITY, AND HUGE AMOUNTS OF PUBLIC MONEY POURED INTO SOCIAL PROJECTS AND STATE-OWNED ENTERPRISES THAT, WHILE DESIRABLE AND IN MANY INSTANCES INDISPENSABLE, NEVERTHELESS GENERATED STRONG INFLATIONARY PRESSURES.

THE FINAL FEW WEEKS OF THE OUTGOING ADMINISTRATION WERE CHARACTERIZED BY ALMOST TOTAL LACK OF CREDIBILITY IN THE GOVERNMENT. THIS NOT ONLY ACCELERATED THE FLIGHT OF DOMESTIC CAPITAL AND FURTHERDEBILITATED A WEAK PESO BUT GAVE RISE TO A PSYCHOSIS THAT INDUCED THE MEXICAN PEOPLE TO BELIEVE EVEN THE MOST PALPABLY ABSURD RUMORS, RANGING FROM FREEZING OF BANK ACCOUNTS TO PRECISE TIMES AND PLACES OF MILITARY COUPS.

THIS WAS THE UNENVIABLE SETTING WHEN THE NEW PRESIDENT TOOK OFFICE ON DECEMBER 1. HE RECOGNIZED AT ONCE THAT THE MOST URGENT NEED WAS TO RESTORE CONFIDENCE. IN HIS UNAUGURAL ADDRESS HE GAVE A REALISTIC AND SOBER ANALYSIS OF THE CRISIS AND ISSUED AN APPEAL TO ALL SECTORS TO WORK TOGETHER TO GET THE NATION'S DERAILED ECONOMY BACK ON THE TRACK. HE ANNOUNCED SPECIFIC MEASURES THAT GAVE REASSURANCE OF A MORE UNDERSTANDING AND CONCILIATORY ATTITUDE TOWARD THE PRIVATE SECTOR.

ALMOST IMMEDIATELY, THE ATMOSPHERE OF ALARM AND UNCERTAINTY GAVE WAY TO ONE OF OPTIMISM AND CONFIDENCE. THE MEXICAN PEOPLE SEEMED TO REACT ALMOST TO A MAN IN DECIDING TO GIVE THE NEW PRESIDENT A FAIR CHANCE TO COPE WITH THE NATION'S ECONOMIC PROBLEMS. THE PESO'S RECOVERY FROM A LOW OF 28 TO ONE TO THE CURRENT 20 TO ONE, AS A RESULT OF MEASURES TAKEN BY THE OFFICIAL BANK, DID MUCH TO REBUILD PUBLIC CONFIDENCE.

AT LEAST PART OF THE EXPLANATION FOR THE HIGH EXPECTATIONS HELD FOR THE NEW PRESIDENT CAN BE SEEN IN HIS PERSONALITY AND HIS BACKGROUND. JOSE LOPEZ PORTILLO REPRESENTS A BREAK WITH TRADITION IN THE PRESIDENTIAL SUCCESSION IN MEXICO, INASMUCH AS HE CAME OUT OF THE FINANCE MINISTRY RATHER THAN THE MINISTRY OF GOVERNMENT, OR MINISTRY OF THE INTERIOR. (THIS LATTER IS A MINISTRY THAT DEALS LARGELY WITH INTERNAL ORDER AND WITH POLITICAL RELATIONSHIPS BETWEEN THE FEDERAL GOVERNMENT AND THE STATE GOVERNMENTS.)

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PRESIDENT LOPEZ PORTILLO IS AN ECONOMIST WITH A STRONG BACKGROUND IN MONEY MANAGEMENT-- TAXATION, ECONOMIC ANALYSIS AND PLANNING, BUDGETING AND ADMINISTRATION. THIS IS PROBABLY AN EXCELLENT CLUE TO THE WAY MEXICANS THEMSELVES VIEW THE PROBLEM AREAS DURING THE NEXT SIX YEARS AND THE KIND OF ABILITY THEY FEEL IS NEEDED TO HANDLE THEM.

EVEN IN HIS PRONOUNCEMENTS AS A CANDIDATE, LOPEZ PORTILLO TENDED TO SUBORDINATE RHETORIC TO REALISM. OFFICERS OF THE AMERICAN CHAMBER OF COMMERCE OF MEXICO HAVE HAD AN OPPORTUNITY TO DISCUSS THE BUSINESS AND FOREIGN INVESTMENT SITUATION WITH HIM. WE ARE IMPRESSED BY HIS ABILITY TO GRASP ESSENTIALS AS WELL AS BY HIS REFRESHING UNDERSTANDING OF THE FUNCTION OF THE PRIVATE SECTOR AND OF FOREIGN PRIVATE INVESTMENT.

THIS COMMITTEE HAS EXPRESSED INTEREST IN THE POSSIBILITY OF CHANGES IN THE APPROACH TO REGULATION OF THE ECONOMY UNDER THE NEW ADMINISTRATION IN MEXICO. MUCH DEPENDS ON WHAT IS MEANT BY "CHANGE." THE FACT THAT A MAN OF PRESIDENT LOPEZ PORTILLO'S BACKGROUND AND QUALIFICATIONS WAS CHOSEN DOES NOT MEAN ABANDONMENT OR EVEN SLACKENING OF THE REFORM PROGRAMS UNDERTAKEN DURING THE PREVIOUS ADMINISTRATION. IT IS REASONABLE TO ASSUME, HOWEVER, THAT THERE WILL BE MORE CAREFUL WEIGHING OF PRIORITIES IN THE LIGHT OF THE NATION'S ECONOMIC CAPACITY. AS HE SAID IN HIS INAUGURAL ADDRESS: "WE MUST WORK IN AN ORGANIZED MANNER TO INCREASE PRODUCTION AND DIRECT IT TOWARD THOSE GOODS AND SERVICES MOST NEEDED BY SOCIETY AND THE NATION, TO SATISFY THE NEED FOR JOBS AND MAKE THE RIGHT TO WORK A REALITY."

THE BASIC ELEMENTS OF REFORM ARE WRITTEN INTO LAW AND MUST BE REGARDED AS PERMANENT. THESE INCLUDE THE FOLLOWING FEATURES: A NEW MODEL FOR ECONOMIC DEVELOPMENT IN WHICH PUBLIC INVESTMENT HAS, FOR THE FIRST TIME IN MEXICAN HISTORY, OUTSTRIPPED PRIVATE INVESTMENT; A NEW OFFICIAL POLICY TOWARD FOREIGN INVESTMENT PROVIDING FOR RESTRICTIONS AND CONTROLS ON NEW AND EXISTING FOREIGN INVESTMENT; LEGISLATION THAT CONTROLS EXISTING AND FUTURE TECHNOLOGY TRANSFER CONTRACTS; A NEW AND COMPLEX LAW ON INVENTIONS AND TRADEMARKS;

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CREATION OF A WORKERS' HOUSING INSTITUTE

FINANCED BY A 5-PERCENT PAYROLL TAX ON ALL BUSINESS; A HUMAN SETTLEMENTS LAW THAT GIVES THE FEDERAL GOVERNMENT EFFECTIVE CONTROL OVER URBAN DEVELOPMENT AND LAND USE THROUGHOUT THE REPUBLIC; CREATION OF NATIONAL COMMISSIONS FOR REGIONAL DEVELOPMENT; REFORMS IN CHILD WELFARE, SOCIAL SECURITY, THE ELECTORAL SYSTEM AND AGRICULTURE. NEW GOVERNMENT AGENCIES HAVE PROLIFERATED. WITHOUT ISSUING ANY JUDGMENT ABOUT THE NECESSITY OR WISDOM OF THESE REFORMS, IT CAN BE SAID THAT THEY REPRESENT AN INCREASE IN GOVERNMENT CONTROL OVER THE PRIVATE SECTOR, BOTH DOMESTIC AND FOREIGN, AS WELL AS AN INCREASE IN THE COST AND COMPLEXITY OF DOING BUSINESS IN MEXICO.

THESE REFORMS, AS I STATED, ARE HERE TO STAY. ANY RELAXATION WOULD BE SEEN PRIMARILY IN INTERPRETATION, AND THERE IS REASON FOR BELIEVING THAT SOME OF THE MEASURES -- THE TRADEMARKS LAW, FOR EXAMPLE--MAY BE APPLIED WITH UNDERSTANDING AND LESS RIGOR.

AS FAR AS THE GENERAL ECONOMIC AND SOCIAL SITUATION IS CONCERNED, EVENTS DO NOT REFLECT ANY NEW OR ALARMING PROBLEMS, BUT RATHER INDICATE AN ADMISSION AND RECOGNITION OF LONG--STANDING PROBLEMS. FOR MANY YEARS, MEXICAN OFFICIALS HAD REFUSED TO ADMIT THAT THE PESO WAS OVERVALUED. BELATEDLY, OFFICIAL PROGRAMS WERE DEVISED TO CHECK THE RATE OF POPULATION GROWTH, ONE OF THE HIGHEST IN THE WORLD. OFFICIAL ATTITUDES TOWARD THE PRIVATE SECTOR WERE INHIBITING NEW INVESTMENT AND THUS MAKING IT MORE DIFFICULT TO PROVIDE EVEN 50 O/O OF THE ESTIMATED 750,000 NEW JOBS NEEDED EACH YEAR. MEXICO'S AGRARIAN REFORM PROGRAM, A CORNERSTONE OF THE REVOLUTION HAD DISTRIBUTED JUST ABOUT ALL THE AVAILABLE LAND WITHOUT APPRECIABLY REDUCING THE NUMBER OF APPLICANTS; UNCLASSIFIED

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VAST NUMBERS OF THE RURAL POPULATION, WITHOUT PRODUCTIVE LAND OF THEIR OWN AND UNABLE TO FIND WORK IN MEXICO, BEGAN TO EMIGRATE ILLEGALLY BY THE HUNDREDS OF THOUSANDS TO THE UNITED STATES. GOVERNMENT SUBSIDIZATION OF STATE-OWNED INDUSTRIES HAD LONG MAINTAINED AN ARTIFICIAL PRICE STRUCTURE, AND WHEN PRICES WERE FINALLY ADJUSTED TO CONFORM TO REALITY, THE AMOUNT OF THE INCREASES CAUSED SERIOUS RESENTMENT AND DISTORTION OF THE ENTIRE ECONOMY. DEPRESSION AND LACK OF OPPORTUNITY IN RURAL AREAS IMPELLED HUNDREDS OF THOUSANDS TO FLOCK TO THE LARGE METROPOLITAN AREAS, WHERE THE EFFECT HAS BEEN URBAN BLIGHT AND AN ALMOST IMPOSSIBLE BURDEN ON MUNICIPAL SERVICES.

THE PANORAMA FOR THE NEW ADMINISTRATION WOULD BE DISMAL INDEED IF IT WERE NOT FOR THE MANY POSITIVE FACTORS WORKING TO MEXICO'S ADVANTAGE. MEXICO HAS HAD THE GOOD FORTUNE TO SEE ITS PETROLEUM RESERVES EXPANDED PRECISELY AT A MOMENT WHEN PETROLEUM BECAME A KEY FACTOR IN INTERNATIONAL ECONOMICS. IMPORTS OF CRUDE OIL HAVE CEASED AS A RESULT OF PRODUCTION OF NEW OIL FIELDS IN SOUTHEASTERN MEXICO. THE COUNTRY HAS PASSED THE ONE-MILLION-BARREL-A-

DAY MARK, AND EXPORT CAPACITY FOR CRUDE OIL HAS REACHED 200,000 BARRELS A DAY, WITH A VALUE OF MORE THAN 2.5 MILLION DOLLARS A DAY AT CURRENT INTERNATIONAL PRICES.

HUGE NEW PHOSPHATE DEPOSITS HAVE BEEN DISCOVERED. THE NATION'S ELECTRIC POWER SYSTEM HAS BEEN DOUBLED IN THE PAST SIX YEARS TO A TOTAL INSTALLED CAPACITY OF 12,243,000 KILOWATTS. CAPACITY OF MEXICO'S IRON AND STEEL INDUSTRY HAS DOUBLED, NOW REACHING 10 MILLION TONS A YEAR. MEXICO'S HIGHWAY NETWORK HAS ALSO DOUBLED, AND HITHERTO INACCESSIBLE AGRICULTURAL AREAS HAVE BEEN OPENED UP. A FIVE-FOLD INCREASE IN THE EDUCATIONAL BUDGET ENABLED THE NATION TO BUILD MORE THAN 100,000 NEW CLASS-ROOMS, LABORATORIES AND WORKSHOPS DURING THE PAST SIX YEARS -- AND THE SIGNIFICANCE OF THIS CAN BE SEEN BY TAKING INTO ACCOUNT THAT APPROXIMATELY 60 PERCENT OF MEXICO'S POPULATION IS OF SCHOOL AGE.

DURING THAT SAME PERIOD, PUBLIC CREDITS FOR AGRICULTURE INCREASED FIVE-FOLD, AND ONE MILLION HECTARES WERE ADDED TO THE IRRIGATED AREA.

MANY SERIOUS PROBLEMS PERSIST IN THE MEXICAN ECONOMY, HOWEVER.
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MEXICO STILL DEPENDS TO A GREAT EXTENT ON IMPORTS FOR CAPITAL GOODS AND SOME FOOD PRODUCTS, WHICH TOGETHER ACCOUNT FOR A HIGH SHARE OF THE NATION'S TRADE DEFICIT. IMPORTS OF MACHINERY AND EQUIPMENT REPRESENT ABOUT 85 PERCENT OF THE COUNTRY'S TOTAL IMPORTS, AND THE PROJECTION OF NEEDS FOR THE NEXT SIX YEARS SETS THE FIGURE AT SOME 20 BILLION DOLLARS.

THERE ARE DEEP POCKETS OF NEED IN AGRICULTURE AND AGRIBUSINESS. MEXICO'S SYSTEM OF LAND TENURE, IN WHICH HOLDINGS ARE SMALL AND GENERALLY UNECONOMIC, MAKE IT DIFFICULT FOR FARMERS TO RECEIVE ESSENTIAL CREDITS, EITHER INDIVIDUALLY OR COOPERATIVELY. MEXICO HAS TREMENDOUS POTENTIAL IN TIMBER, BUT THE FORESTRY INDUSTRY HAS SUFFERED FROM ANEMIC INVESTMENT AS A CONSEQUENCE OF MISGUIDED CONSERVATION POLICIES. THE FISHING INDUSTRY, WITH INCREASED POTENTIAL NOW THAT MEXICO HAS PROCLAIMED JURISDICTION OUT TO 200 NAUTICAL MILES, ALSO OFFERS OPPORTUNITIES THAT ARE BEING NEGLECTED. MEXICO'S POPULATION GROWTH RATE THAT BRINGS THREE-QUARTERS OF A MILLION NEW PERSONS INTO JOB MARKET EACH YEAR MAKES THE OUTLOOK BLEAK FOR REDUCING AN ALREADY SERIOUS UNEMPLOYMENT RATE, VARIOUSLY ESTIMATED FROM 25 TO 35 PERCENT. THE SAME FACTORS OF POPULATION GROWTH SEVERELY TAX THE NATION'S CAPACITY TO PROVIDE ADEQUATE SCHOOLING, ESPECIALLY IN RURAL AREAS.

MEXICO'S TOURIST INDUSTRY, WHICH UP TO 1975 BROUGHT IN SUFFICIENT FOREIGN EXCHANGE TO BALANCE THE NATION'S TRADE DEFICIT, HAS BEEN PERFORMING POORLY IN THE PAST 18 MONTHS. EXPECTATIONS OF IMPROVEMENT AS A RESULT OF DEVALUATION, WHICH REDUCED DOLLAR RATES BY FROM 30 TO 40 PERCENT, HAVE NOT YET MATERIALIZED. THE DROP IN TOURISM, WHICH BROUGHT IN ONLY 401 MILLION DOLLARS IN 1975 AGAINST 507 MILLION IN 1974, CAN BE ATTRIBUTED TO A COMBINATION OF FACTORS. THE WORLD-WIDE RECESSION CONTRIBUTED. MEXICO'S VOTES AT THE UNITED NATIONS BROUGHT ON THE SO--

COLLED "JEWISH BOYCOTT," AND THE EFFECTS OF THIS STILL LINGER.
STILL ANOTHER FACTOR WAS THE NEGATIVE IMAGE PRODUCED BY VASTLY
EXAGGERATED REPORTS OF MISTREATMENT OF U.S. TOURISTS IN MEXICO.
AND FINALLY, THE TRUTH IS THAT MEXICO HAD BECOME TOO EXPENSIVE AND
WAS LOSING OUT TO OTHER COMPETING AREAS.

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BUSINESS-GOVERNMENT RELATIONSHIPS

AN ENCOURAGINGSIGN FOR THE FUTURE IS A PERCEPTIBLE THAW IN
BUSINESS-GOVERNMENT RELATIONS. ESPECIALLY SIGNIFICANT WAS THE
FORMATION IN DECEMBER OF AN "ALLIANCE FOR PRODUCTION" -- AN AGREE-
MENT ENTERED INTO BY THE MEXICAN GOVERNMENT AND LEADERS OF INDUSTRY
AND ORGANIZED LABOR FOR THE PURPOSE OF CARRYING OUT AN AMBITIOUS
5-BILLION - DOLLAR INVESTMENT PLAN OVER A PERIOD OF SIX YEARS.
THE ALLIANCE WILL PROMOTE GROWTH AND REDUCE THE NATION'S DEPENDENCE
ON IMPORTS. SECTORS COVERED BY THE ACCORD, WHICH INVOLVES 140
FIRMS IN 10 INDUSTRIAL SECTORS, INCLUDE PETROCHEMICALS, HEAVY AND
MEDIUM CAPITAL GOODS INDUSTRIES, TOURISM, THE AUTOMOTIVE INDUSTRY,
CEMENT, THE IN-BOND INDUSTRY AND MINING.

EQUALLY ENCOURAGING IS THE FACT THAT PRESIDENT LOPEZ PORTILLO
IS MAKING CLOSE RELATIONS WITH BUSINESS LEADERS A PRIORITY IN HIS
PLANS TO SOLVE THE COUNTRY'S ECONOMIC AND POLITICAL PROBLEMS.
HIS ADMINISTRATION DEFINITELY SEEMS TO BE MORE BUSINESS-ORIENTED,
CHARACTERIZED BY CLOSER CONSULTATION ON ECONOMIC POLICY IN EXCHANGE
FOR PRIVATE SECTOR COOPERATION IN THE GOVERNMENT'S PROGRAM OF
MAKING MORE LOW-COST CONSUMER GOODS AVAILABLE TO THE NATION'S LOW-
INCOME GROUPS.

IN SHORT, PRIVATE BUSINESS LOOKS FORWARD TO BEING ABLE TO
OPERATE IN A FAR MORE FAVORABLE ATMOSPHERE. THIS VERY FACT WILL
HELP TO ENCOURAGE NOT ONLY DOMESTIC INVESTMENT BUT NEW FOREIGN
INVESTMENT AND EXPANSION OF EXISTING FOREIGN-HELD INSTALLATIONS.
THE AMERICAN CHAMBER OF COMMERCE OF MEXICO IS OFTEN ASKED
WHETHER RESTRICTIVE LEGISLATION AND CONTROLS ADOPTED UNDER THE
PREVIOUS ADMINISTRATION HAVE HAD ANY SERIOUS IMPACT ON THE INFLUX
OF NEW FOREIGN INVESTMENT OR ON THE PROFITABILITY OF EXISTING
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FOREIGN INVESTMENT. THERE HAVE BEEN NEGATIVE REACTIONS, ALTHOUGH THEY ARE HARDLY QUANTIFIABLE. ON BALANCE, HOWEVER, FOREIGN INVESTORS HAVE FOUND THAT THE LAWS CAN BE LIVED WITH AND THAT REASONABLE PROFITS CAN BE MADE IN SPITE OF CONTROLS AND RESTRICTIONS.

THIS EVALUATION WAS CONFIRMED EARLY IN 1975 WITH THE PUBLICATION OF THE RESULTS OF A SURVEY BY THE STANFORD RESEARCH INSTITUTE, CONDUCTED UNDER CONTRACT WITH THE AMERICAN CHAMBER OF COMMERCE OF MEXICO. COVERING THE PERIOD 1970 TO 1974, THE OBJECT OF THE SURVEY WAS TO COUNTERACT MOUNTING CRITICISM OF TRANSNATIONAL OPERATIONS BY PROVIDING A FIRM FACTUAL BASE. INFORMATION COMPILED FROM 346 FIRMS REPRESENTING 41 PERCENT OF TOTAL U.S. INVESTMENT IN MEXICO REVEALED MANY INTERESTING FACTS:

AMONG SURVEYED FIRMS, 72 PERCENT OF PROFITS WERE REINVESTED. ALMOST 99 PERCENT OF WORKERS IN FOREIGN-OWNED COMPANIES ARE MEXICAN. BETWEEN 1970 AND 1974, SURVEYED FIRMS INCREASED THEIR EXPORTS FROM 80 MILLION TO 256 MILLION DOLLARS. KNOW-HOW AND TECHNOLOGY OF PARENT COMPANIES WAS MADE AVAILABLE TO 208 OF 225 RESPONDING LOCAL FIRMS. IN 1974, NET PROFITS OF ALL U.S.- BASED FOREIGN AFFILIATES IN MEXICO WERE 12.6 PERCENT OF STOCKHOLDERS EQUITY, SLIGHTLY BELOW THE WORLD AVERAGE, AND 6.4 PERCENT OF SALES. THE TOTAL OF FUNDS TRANSFERRED OUTSIDE OF MEXICO IN 1974 BY SURVEYED FIRMS, INCLUDING INTEREST PAYMENTS, DIVIDENDS, PATENT, LICENSING, MANAGEMENT, TECHNICAL ASSISTANCE AND OTHER FEES, AS WELL AS CAPITAL REPATRIATED, WAS 192 MILLION DOLLARS, OR 4.3 PERCENT OF GROSS SALES. SURVEYED FIRMS SPENT 7.1 BILLION DOLLARS DURING THE FIVE-YEAR PERIOD FOR PURCHASES OF RAW MATERIALS AND SUPPLIES FROM MEXICAN SOURCES.

IN ESSENCE, THE STANFORD RESEARCH INSTITUTE SURVEY CONCLUDES THAT, IN SPITE OF CERTAIN MISGIVINGS ABOUT ECONOMIC NATIONALISM, MEXICO REMAINS ATTRACTIVE TO FOREIGN INVESTORS.

OUTLOOK FOR THE FUTURE

FOR THE MOMENT, MEXICO'S ECONOMIC OUTLOOK IS FULL OF UNCERTAINTIES, PRINCIPALLY BECAUSE OF THE AFTER-SHOCK OF THE RECENT DEVALUATION AND THE FACT THAT THE NEW ADMINISTRATION HAS NOT YET HAD TIME TO IMPLEMENT ITS ECONOMIC AND FISCAL POLICIES. DEVALUATION HAD A PREDICTABLE IMPACT ON U.S. BUSINESS IN MEXICO, ALTHOUGH

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NOT UNIFORMLY IN ALL SECTORS. SALES IN MANY INDUSTRIES -- NOTABLY THE AUTOMOTIVE INDUSTRY -- DROPPED OFF SHARPLY, AND COSTS WENT UP EQUALLY SHARPLY. SOME FIRMS HAVE TAKEN STEPS EITHER TO REDUCE WORK FORCES OR TO DELAY NEW HIRINGS. OTHERS HAVE HAD TO RESTRUCTURE THEIR DEBTS.

THERE IS EXPECTATION OF FULL RECOVERY FROM THE EFFECTS OF DEVALUATION FOR THE LONG TERM, PROBABLY UP TO TWO YEARS. DECEMBER

CONSUMER SALES WERE EXCELLENT, AND NEW BANK LOAN IN SUBSTANTIAL AMOUNTS INDICATE LONG-RANGE CONFIDENCE IN THE NATION'S ECONOMIC HEALTH. THE KEY QUESTION IS WHETHER MEXICO CAN HOLD ITS INFLATION RATE DOWN TO COMPARE REASONABLY CLOSE TO THE U.S. INFLATION RATE. THIS IS HIGHLY IMPORTANT BECAUSE THE UNITED STATES IN MEXICO'S PRINCIPAL TRADING PARTNER, ACCOUNTING FOR SOME 60 PERCENT OF MEXICO'S IMPORTS AND EXPORTS. THE DEVALUATION GIVES MEXICAN PRODUCTS A NEW COMPETITIVE ADVANTAGE IN THE U.S. MARKET, BUT WHETHER OR NOT THE REMEDY IS PERMANENT WILL DEPEND ON THE NEW ADMINISTRATION; SUCCESS IN KEEPING DOMESTIC PRODUCTION COSTS DOWN.

BASED ON WHAT WE KNOW AND CAN CONJECTURE ABOUT THE NEW ADMINISTRATION'S APPROACH TO THE NATION'S ECONOMIC PROBLEMS, IT IS REASONABLE TO ASSUME THAT THERE WILL BE A SLOWING OF PACE IN THE AREA OF SOCIAL AND ECONOMIC REFORMS AND GREATER ATTENTION TO MONEY INCOME AND OUTGO.

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TO SECSTATE WASHDC 9621

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AS I POINTED OUT EARLIER, HOWEVER, THE REFORMS ADOPTED DURING THE PAST ADMINISTRATION WILL BE IMPLEMENTED TO WHATEVER EXTENT IS NECESSARY TO MAKE THEM PERMANENT AND FUNCTIONAL. MEXICO WILL CONTINUE TO SOLICIT AND OBTAIN CREDITS FROM ABROAD, ALTHOUGH THERE WILL PROBABLY BE MORE CONCERN ABOUT THE IMPACT ON THE DOMESTIC ECONOMY OF SERVICING THESE CREDITS. MEXICO WILL CONTINUE TO SPEND HEAVILY ON INFRASTRUCTURE AND SOCIAL PROJECTS AND WILL TAKE AN ACTIVE ROLE IN AREAS NORMALLY REGARDED AS BELONGING TO THE PRIVATE SECTOR, ALTHOUGH NEW ENCOURAGEMENT IS BEING GIVEN TO PRIVATE INVESTMENT TO TAKE THE INITIATIVE WHEN INVESTMENT OPPORTUNITIES ARE PRESENTED. THE SAME FACTORS THAT HAVE TRADITIONALLY MADE MEXICO ATTRACTIVE TO FOREIGN INVESTORS CAN BE EXPECTED TO PREVAIL -- FREEDOM FROM EXCHANGE CONTROLS, POLITICAL STABILITY, A GROWING DOMESTIC MARKET, AND STRONG GOVERNMENT INVESTMENT IN INFRASTRUCTURE TO SUPPORT INDUSTRIAL DEVELOPMENT.

DRAWBACKS DO EXIST, HOWEVER, IN THE FORM OF LABOR LEGISLATION THAT INCREASES WAGES WITHOUT REFERENCE TO INCREASE IN PRODUCTIVITY, IN THE FORM OF COLATERAL BENEFITS THAT INFLATE NORMAL

PAYROLL COSTS AND INHIBIT EXPANSION OF THE WORK FORCE, AND IN A STILL UNDETERMINED POLICY WITH RESPECT TO PRICE CONTROLS. THE MINIMUM WAGE WAS INCREASED BY 23 PERCENT IMMEDIATELY AFTER DEVALUATION AND THE SAME RATE OF INCREASE WAS "RECOMMENDED" FOR ALL WAGE EARNERS. THE MINIMUM WAGE WAS AGAIN RAISED ON JANUARY 1 BY 10 PERCENT, A SOMEWHAT LOWER FIGURE THAN MOST BUSINESSMEN HAD ANTICIPATED. SOME SORT OF OFFICIAL ACTION IS INDICATED TO PREVENT THE PERPETUAL PURSUIT OF INFLATION BY WAGE HIKEs, ALTHOUGH THE MEXICAN GOVERNMENT WILL ASSUREDLY CONTINUE TO GIVE SUPPORT TO ITS LARGE AND POWERFUL LABOR CONSTITUENCY.

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WITH RESPECT TO FOREIGN INVESTMENT, MOST OBSERVERS EXPECT A PERIOD OF REFINEMENT AND CLARIFICATION OF THE RATHER LARGE BODY OF LEGISLATION ENACTED DURING THE PAST SIX YEARS, WITH NOTHING VERY NEW OR STARTLING ANTICIPATED. MEXICO WILL CONTINUE TO BE RECEPTIVE TO FOREIGN CAPITAL, ESPECIALLY WHEN THIS BRINGS IN NEW TECHNOLOGY OR CREATES NEW JOBS. THE ESTABLISHED TREND TOWARD MIXED VENTURES, WITH EITHER MEXICAN PRIVATE INVESTORS OR THE MEXICAN GOVERNMENT AS THE MAJORITY STOCKHOLDER, WILL CONTINUE TO BE ENCOURAGED.

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C O R R E C T E D C O P Y - T E X T

IN GENERAL, U. S. BUSINESSMEN IN MEXICO ARE OPTIMISTIC ABOUT PROSPECTS FOR THE IMMEDIATE AND LONG TERM. THEY ARE REALISTIC ENOUGH TO RECOGNIZE THAT CHANGE IS A FACTOR THAT MUST BE TAKEN INTO ACCOUNT IN ALL DEVELOPING COUNTRIES. THEY BELIEVE THAT COMPANIES CAPABLE OF RESPONDING TO THEIR HOST COUNTRY'S OBJECTIVES CAN PROSPER AS WELCOME PARTICIPANTS IN DEVELOPMENT,

SINCE IN ADDITION TO CAPITAL THEY PROVIDE JOBS, TECHNOLOGY, EXPORTS, DECENTRALIZATION, IMPORT SUBSTITUTION, SKILLS AND MANAGEMENT TRAINING FOR MEXICAN PERSONNEL.

IF MEXICO TAKES ADVANTAGE OF THE MANY POSITIVE ASPECTS OF ITS ECONOMY, ACCEPTING A PERIOD OF BELT-TIGHTENING TO ALLEVIATE THE PRESENT MONETARY CRISIS, THE LONG-TERM OUTLOOK FOR BUSINESS WILL REMAIN FAVORABLE.

AMCHAM MEXICO IS ALSO ASKED FREQUENTLY ABOUT REPORTS THAT MEXICO IS FOLLOWING THE ROAD OF CUBA. NO ONE FAMILIAR WITH THE MEXICAN SCENE SEES ANY IMMINENT DANGER OF SOCIAL DISINTEGRATION, AND WE SINCERELY TRUST THAT NO ONE IN A POSITION OF AUTHORITY IN THE U.S. GOVERNMENT WILL CONFUSE WHAT THEY SEE AND READ ABOUT MEXICO'S DIFFICULTIES BY RAISING THE SPECTER OF COMMUNISM.

AS FOR MEXICO'S TRADITIONAL EXCELLENT RELATIONSHIPS WITH THE UNITED STATES, MY BELIEF IS THAT THESE WILL NOT ONLY BE SUSTAINED BUT IMPROVED. HERE, MUCH DEPENDS ON THE DEGREE TO WHICH THE UNITED STATES RESPECTS MEXICO'S DESIRE FOR "ECONOMIC AND CULTURAL INDEPENDENCE".

IT WOULD BE UNREALISTIC TO DENY THAT MEXICO IS NAVEGATING THROUGH DIFFICULT ECONOMIC STRAITS. BUT IT WOULD BE EQUALLY UNCLASSIFIED

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REALISTIC TO CONCLUDE THAT THIS REVEALS STRUCTURAL OR SOCIAL PROBLEMS BEYOND MEXICO'S CAPACITY TO CONTROL, GIVEN TIME AND WHATEVER ASSISTANCE FROM ABROAD THAT MEXICO MAY FEEL OBLIGED TO SOLICIT.

I AM FULLY CONFIDENT THAT MEXICO'S RESPONSE TO THE PRESENT CHALLENGE WILL BE POSITIVE AND SUCCESSFUL. UNQUOTE.
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